

FDIC State Profile

Spring 2005

Arkansas

Arkansas institutions posted record earnings in 2004.

- Total net operating income for insured institutions headquartered in Arkansas reached a record \$454 million in 2004 (See Chart 1), helping to boost capital and loan loss reserve levels.

Pressures on bank liquidity have intensified.

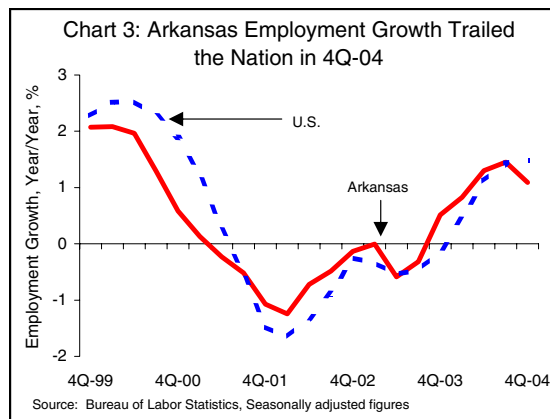
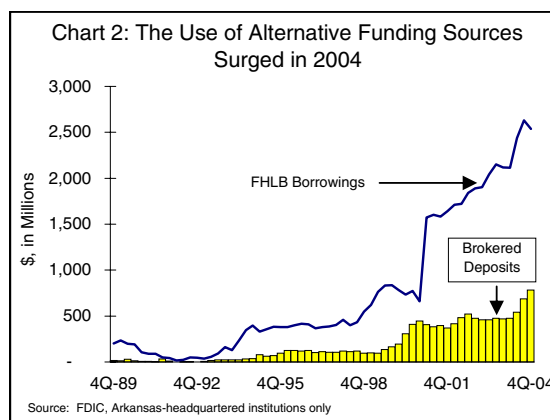
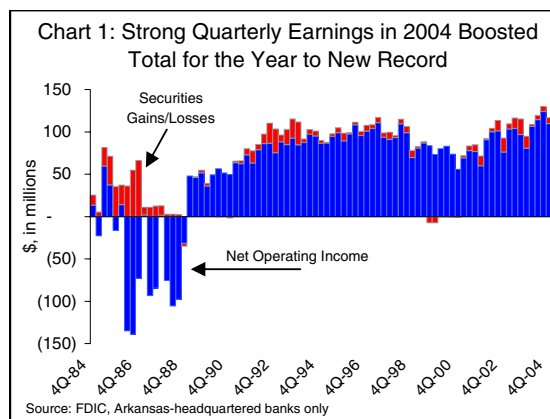
- Growth in traditional deposit funding sources has stagnated at many banks in recent years and has largely failed to keep up with the growth in bank assets, particularly loans. In fact, the rate of loan growth more than doubled that of core deposit growth for the 12 months ending December 31, 2004.
- In response to this trend, state institutions have had to supplement traditional funding sources with a variety of new, but potentially less stable and more expensive, funding instruments.
- Brokered deposits use surged to the highest recorded level ever at \$783 million in fourth quarter 2004, while Federal Home Loan Bank borrowings dropped slightly from the record high achieved in third quarter 2004 (See Chart 2).

Job gains were solid in 2004.

- Total non-agricultural employment increased by 2,400 between third and fourth quarter 2004, with minimal losses in the manufacturing and leisure & hospitality sectors. Year-over-year employment growth was 1.1 percent in fourth quarter 2004; however, this growth lagged the national average (See Chart 3).
- Arkansas consumer credit quality appears to have benefited from the growth, as the state's median past due ratio reached a cyclical low of 2.34 percent in fourth quarter 2004.

Soybean farmers face a new threat in rust disease.

- Soybeans, one of the state's top commodities, are in jeopardy because of the recent arrival of Asian rust disease, a fungus which can destroy a crop in as brief a period as one week.



- Fortunately, the disease is treatable with fungicides. However, the typical cost of purchasing and applying a fungicide has been estimated by the USDA at approximately \$25 an acre, increasing the cost of production between 15 and 20 percent. This increase in costs could lead to a significant decline in planted acreage this spring and that, in turn, may provide a modest boost to prices.

The future of military bases in Arkansas is under review.

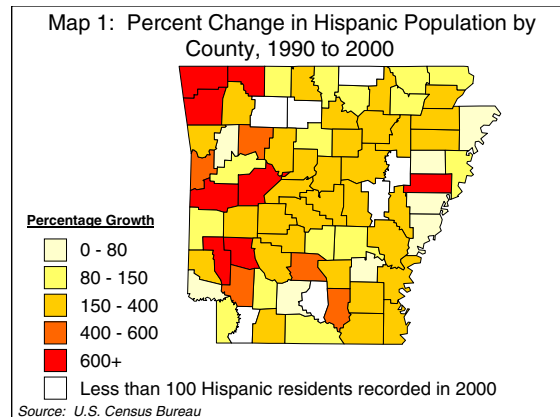
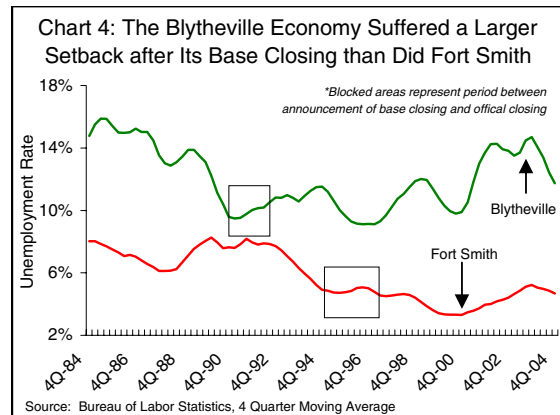
- Communities across the nation are anxiously awaiting the May 16th deadline when the Pentagon delivers to Congress the initial list of recommended base closures and realignments. Arkansas is home to several bases, including the Little Rock Air Force Base (the state's third largest employer).
- A study of prior base closings suggests that communities with larger, more diversified economies fare better than smaller communities over the long-term. Locally, this is evidenced by the contrast in performance of previous base closings in the Blytheville and Fort Smith areas. Blytheville saw its unemployment rate rise, while Fort Smith, a community with greater employment diversity, saw only a negligible spike in unemployment rates during its base closure period (See Chart 4).

The Hispanic population in Arkansas is booming and offers new growth opportunities for state banks.

- Between 1990 and 2000, the Hispanic population in Arkansas grew an astonishing 337 percent. Yell County led the way with 1,420 percent growth, while 13 counties in all experienced Hispanic population growth of more than 400 percent. (See Map 1).
- The economies of counties with the highest Hispanic population growth rates tend to rely more heavily on the manufacturing sector, in particular the poultry production sub-sector. In growing metro areas such as **Fayetteville-Springdale-Rogers** and **Little Rock**, construction also appears to be contributing to the increase in the Hispanic population. The stability in the poultry industry and strong metro employment growth suggests that migration trends have continued into 2005.
- Many industry analysts believe that more than half of all U.S. retail banking growth will originate from the Hispanic market during the next two decades.¹

Metro Spotlight: Jonesboro will continue to be supported by a growing education & health services sector.

- The **Jonesboro** economy, similar to the state, has benefited from strong growth in the education & health services sector over the past decade. The total number of employed workers in the metro area grew 3.74 percent in 2004, its best performance since 1999. The presence of **Arkansas State University** and major healthcare facilities, such as **St. Bernard Regional Medical Center** and **Regional Medical Center of Northeast Arkansas**, should ensure solid employment growth for the MSA going forward, as employment in this sector is projected to be strong.²
- Total deposits in Jonesboro grew 73 percent from 1994 to 2004, compared with 53 percent for the state. Banking competition in Jonesboro is intense with 16 institutions and 62 offices competing for deposits. The level of competition is further illustrated by a high median cost of funds ratio of 2.10 percent compared with the state median of 1.57 percent,³ a higher cost for funds than elsewhere in the state.



¹For more information see, "Banks Are Still Sizing Up Opportunities in the Growing Hispanic Market" in the FDIC Outlook (Winter 2004 edition) available at: <http://www.fdic.gov>.

²U.S. Bureau of Labor Statistics. Industry at a Glance: Education and health services. Washington, DC, 2004.

³Figures based on Arkansas headquartered banks only.

Arkansas at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	0.5%	-0.1%	-1.1%	0.6%
Manufacturing (18%)	0.0%	-3.4%	-4.0%	-7.7%	-1.0%
Other (non-manufacturing) Goods-Producing (5%)	2.8%	-3.2%	-1.4%	1.9%	1.9%
Private Service-Producing (60%)	1.4%	1.6%	1.2%	0.0%	0.8%
Government (17%)	0.9%	2.0%	0.2%	2.6%	1.2%
Unemployment Rate (% of labor force)	5.6	5.9	5.5	5.0	4.2

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	6.0%	1.8%	5.8%	3.9%
Single-Family Home Permits	6.0%	16.8%	9.0%	2.2%	-6.3%
Multifamily Building Permits	83.0%	-10.7%	-13.9%	6.5%	-6.9%
Existing Home Sales	16.5%	-7.6%	17.2%	18.5%	-14.3%
Home Price Index	6.2%	4.6%	4.0%	5.3%	3.3%
Bankruptcy Filings per 1000 people (quarterly level)	2.14	2.21	2.24	1.94	1.57

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	168	170	177	187	194
Total Assets (in millions)	40,687	38,129	35,427	31,564	28,949
New Institutions (# < 3 years)	0	0	3	6	8
Subchapter S Institutions	32	31	29	22	17

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.34	2.83	3.12	3.16	2.95
ALLL/Total Loans (median %)	1.49	1.47	1.34	1.26	1.15
ALLL/Noncurrent Loans (median multiple)	1.46	1.30	1.30	1.19	1.37
Net Loan Losses / Total Loans (median %)	0.20	0.29	0.28	0.25	0.17

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	9.80	9.78	9.34	9.01	9.16
Return on Assets (median %)	1.09	1.09	1.05	0.98	1.02
Pretax Return on Assets (median %)	1.52	1.50	1.51	1.31	1.37
Net Interest Margin (median %)	4.14	4.13	4.16	3.87	4.02
Yield on Earning Assets (median %)	5.67	5.99	6.70	7.81	8.15
Cost of Funding Earning Assets (median %)	1.57	1.84	2.52	3.95	4.24
Provisions to Avg. Assets (median %)	0.16	0.22	0.33	0.26	0.19
Noninterest Income to Avg. Assets (median %)	0.73	0.75	0.73	0.71	0.69
Overhead to Avg. Assets (median %)	2.82	2.82	2.82	2.82	2.83

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	60.6	59.1	61.7	63.0	63.4
Noncore Funding to Assets (median %)	25.0	23.9	24.1	23.0	23.1
Long-term Assets to Assets (median %, call filers)	12.3	14.9	12.4	13.0	12.8
Brokered Deposits (number of institutions)	45	40	42	40	50
Brokered Deposits to Assets (median % for those above)	5.2	3.9	5.5	2.8	3.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	79.5	81.0	87.8	90.9	97.9
Commercial Real Estate	170.6	151.4	142.7	139.5	119.5
Construction & Development	40.5	27.3	22.9	25.0	22.6
Multifamily Residential Real Estate	4.0	3.9	4.0	4.5	4.6
Nonresidential Real Estate	114.4	113.5	104.6	104.7	82.7
Residential Real Estate	154.0	156.7	183.5	194.2	188.7
Consumer	55.4	62.2	75.4	81.8	86.0
Agriculture	43.4	49.7	47.1	53.4	56.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Memphis, TN-MS-AR	54	25,949	< \$250 mil.	130 (77.4%)
Little Rock-North Little Rock, AR	35	9,164	\$250 mil. to \$1 bil.	33 (19.6%)
Fayetteville-Springdale-Rogers, AR-MO	25	5,504	\$1 bil. to \$10 bil.	5 (3%)
Fort Smith, AR-OK	22	3,400	> \$10 bil.	0 (0%)
Jonesboro, AR	16	1,847		